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UNCLAS SECTION 01 OF 07 NEW DELHI 005418

SIPDIS

FOR HHS SECRETARY LEAVITT FROM CDA STEVEN WHITE

HHS PASS TO NIH

STATE PASS TO USAID

STATE FOR SCA; OES (STAS FEDOROFF); OES/PCI STEWART; OES/IHA SINGER

PASS TO HHS/OGHA (STEIGER/HICKEY), CDC (BLOUNT/FARRELL),

NIH/FIC (GLASS/MAMPILLY), FDA (LUMPKIN/WELSCH, GENEVA FOR HOFMAN)

SENSITIVE

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SUBJECT: SCENESETTER PART I: THE DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS) SECRETARY LEAVITT'S JANUARY 7-11, 2007 VISIT TO INDIA

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¶1. (SBU) Summary: Secretary Leavitt, your visit to India comes at a difficult juncture in what has been a time of deep transformation in Indo-U.S. relations. Just as we were poised to accelerate and expand ties between our two democracies into a more comprehensive relationship, the ruling coalition, the United Progressive Alliance (UPA), appears to have buckled to coalition and Leftist pressure to stall an ambitious landmark U.S.-Indian civil nuclear agreement that would have brought India into the international nonproliferation mainstream and opened US-India cooperation in the civil nuclear field. While the short term has been made cloudy and uncertain by this backpedaling on the civil nuclear deal, the long term prospects for a closer, abiding bilateral relationship and a vibrant, prosperous India are very strong - and still of strategic importance to the U.S. Your visit helps demonstrate the vitality and breadth of our relationship, which now touches on almost all areas of human endeavor. Your public message should be to highlight the natural complementarities of our two countries and show the public how our linkages in health and human services lead to closer ties. The deeper those linkages - which bring visible benefits to ordinary Indians - the more the Left parties' intransigence and ideology will be seen as incurring heavy costs to India and its people.

¶2. (SBU) One of our major priorities now is to have Indian government policy makers use objective, and transparent science-based and market-acceptable standards for developing policies and regulations that govern different aspects of international partnerships, including scientific, pharmaceutical, and biopharmaceutical collaborations, trade, and investment. In addition to discussions on the important topic of Import Safety with government and industry leaders, your presence and advocacy will help encourage greater engagement and awareness about polio, avian influenza, and HIV/AIDS, vaccine development, and U.S.-Indian efforts to combat these and other diseases. The Mission views your visit as a key building block in the ongoing transformation of the US-India bilateral relationship. End Summary.

¶3. (SBU) Your visit will take you to three southern cities (Chennai, Hyderabad, and Cochin) followed by a visit to New Delhi. Mission is sending scenesetter cables in three parts. The first cable will provide information on the three southern cities you will visit, status of civil nuclear deal, political climate, economic situation, and trafficking in persons. The second cable will present information on U.S.-India collaborations on life sciences, vaccine development, health sciences, and public health. The third cable will provide information and analysis on India's regulatory environment for food, devices, biotechnology, and drugs as well as information relevant to safety of consumer products. This is the first of the three scenesetter cables.

OVERVIEW OF THREE SOUTHERN STATES OF INDIA

¶4. (SBU) In South India you will visit three of the four states in India's most economically vibrant region. The entrepreneurial dynamism found in south Indian metros like Bangalore, Hyderabad, and Chennai is a major factor in India's recent ascent as an emerging global power. With a population of more than 220 million people, the south's four states taken together -- Tamil Nadu, Andhra Pradesh, Karnataka, and Kerala -- are geographically bigger than France. Each of these states has a distinct language, but they all share a cultural and linguistic heritage that sets them apart from their northern neighbors. Most south Indians are Hindu, though the states are home to large communities of Muslims and Christians as well, but tensions between the various communities are muted in comparison to the rest of the country.

¶5. (SBU) The southern states generally have better social indicators -- literacy, infant mortality, and lifespan -- than north Indian states. An emphasis on education and high density of quality educational institutions has resulted in the ready availability of skilled labor. The southern states are also known for their good governance and, with the exception of communist-ruled Kerala, for

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their business-friendly policy environments. Together, these factors have made south India a preferred destination for foreign direct investment (FDI). The three states of Karnataka, Tamil Nadu, and Andhra Pradesh are regularly among India's top five in drawing FDI, led by the phenomenal growth in the information technology sector. But growth is not limited to Information Technology (IT); south India also is home to major manufacturing, aerospace, and pharmaceutical centers.

¶6. (SBU) South India is also politically distinct from the north. India's major national parties, the Bharatiya Janata Party (BJP) and the Congress Party, face stiff competition from, and often take a backseat to, various state-based regional parties in the south. The BJP does not have control of a single southern state; Congress only controls one - Andhra Pradesh. You will be meeting with Andhra Pradesh's Congress Chief Minister Y.S.R. Reddy. Andhra Pradesh's major opposition party is an important regional party known as the Telugu Desam Party, which is lead by the charismatic Chandrababu Naidu.

¶7. (SBU) In Tamil Nadu, you will meet the 84-year-old MK Karunanidhi, Chief Minister and leader of the ruling Dravida MK party. The DMK is one of several "Dravidian" parties that emphasize the distinctness of the local Tamil people. Various Dravidian parties have ruled Tamil Nadu since 1968, when Congress was last in control in the state. Kerala is currently run by a coalition of leftist parties led by the Communist Party of India (Marxist). Union Minister of Health and Family Welfare Ramadoss, who will be accompanying you on most of your Chennai program, is from the Pattali Makkal Katchi (PMK) party. Although the DMK and PMK are formal coalition partners in the Tamil Nadu government, they have had a major falling out in recent weeks. You may pick up on this tension during your meetings with Karunanidhi or Ramadoss, and both could seek subtlety to use your visit to their own political advantage.

THE CIVIL NUCLEAR AGREEMENT

¶8. (SBU) President Bush and Prime Minister Singh pledged in July 2005 to take a series of reciprocal steps that would culminate in the opening of India's formerly sanctioned civil nuclear market. India completed the first milestone on March 2, 2006 by releasing a plan to separate its civilian and strategic nuclear programs in a phased manner, and pledging to place its civilian facilities under International Atomic Energy Agency (IAEA) safeguards. An overwhelming, bipartisan majority in the U.S. Congress then approved in December 2006 the Hyde Act, which allowed the U.S. and India to engage in civil nuclear trade.

¶9. (SBU) The U.S. and India concluded an Agreement for Peaceful Nuclear Cooperation, also known as the 123 Agreement, in July 2007, which sparked political turmoil when the Left parties threatened to withdraw their support from the ruling UPA government because the 123 Agreement, they felt, brought India too close to the U.S. Although political uncertainty continues, the Indian government proceeded in December 2007 to negotiate with the IAEA for a safeguards agreement. Once the IAEA talks conclude, the U.S. will seek to enact a policy change in the Nuclear Suppliers Group (NSG) to allow India to engage in civil nuclear commerce globally. Finally, the Administration will submit the 123 Agreement to the U.S. Congress for an up-or-down vote of approval. Civil nuclear cooperation between the U.S. and India will offer benefits to both countries' citizens through enhanced energy security, a more environmentally-friendly energy source, greater economic opportunities, and more robust nonproliferation efforts.

THE POLITICAL SEASON BEGINS

¶10. (SBU) A string of state-level election losses earlier this year and the bitter squabble between United Progressive Alliance (UPA)

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coalition allies over the U.S.-India civil nuclear agreement in recent months has weakened the Congress Party, which leads the current UPA in Delhi. The recent landslide loss by the Congress Party to its chief rival, the opposition BJP, in the state assembly election in Gujarat was particularly damaging to the Congress Party for the margin of the loss as well as the fact that the party and its leadership put in an blundering and unfocused campaign against a BJP government which appeared vulnerable to anti-incumbency and internal dissidence. The Congress Party suffered another defeat in the state assembly election for Himachal Pradesh where the results were announced on December 28. In this weakened position, neither the Congress nor its UPA allies have much of a stomach for early national elections, which once appeared imminent due to the dispute over the US-India civil nuclear deal. Whether national elections are held on schedule in May 2009 or earlier, the national and regional political parties have begun to prepare for and position themselves for the national polls. The BJP recently decided to fight the next election under the leadership of former Party President and former Deputy Prime Minister L.K. Advani. The BJP also tried to close ranks through a show of unity in the party. The Congress Party recently elevated Rahul Gandhi to a senior position in the party and reorganized its party structure to try to re-brand the party as one of youth and the future.

¶11. (SBU) The UPA government will become more cautious until the national elections, whether they are held in 2008 or, as scheduled, in 2009. It is unlikely to pursue any bold domestic or foreign policy initiatives. These same political considerations are affecting the GOIs willingness to be proactive on Trafficking In Persons since it would otherwise open it up to criticism from opposition parties. It will remain focused on trying to move forward its core economic and education reform issues, as outlined in this year's Independence Day speech from the Red Fort. As the elections approach, we will see more populist proposals emanating from the government. It will be useful to keep an eye on next year's budget, in which there will be great pressure on the government from innumerable interest groups to open its purse strings. One issue on which we expect Prime Minister Manmohan Singh's government to remain courageous, however, is the U.S.-India relationship. Manmohan Singh has invested a great deal of his

personal political capital in improving our strategic relationship, particularly with the civil nuclear initiative, but also in other areas such as energy and agriculture cooperation. In this, he appears to have Sonia Gandhi's full backing. It does not hurt that a stronger U.S.-India relationship is expected to be a net positive for the government as it goes to the electorate.

A COMPREHENSIVE ECONOMIC RELATIONSHIP

¶12. (SBU) The bilateral economic relationship is a critical driver in deepening ties between our countries. This is happening through government exchanges such as the Economic Dialogue and the Trade Policy Forum, and by our countries' private sectors, including the CEO Forum, that are boosting U.S.-India trade and investment to new heights.

INDIA'S ECONOMIC TRAJECTORY - ONE OF TRANSFORMATION

¶13. (SBU) I know that you are well aware of India's economic performance that has seen Gross Domestic Product (GDP) growth jump in the last two decades from the 6 percent range to nearly four years straight of 8.5 percent compounded annual growth. While there is some question whether this is simply cyclical, we perceive fundamental structural changes underway that are reshaping India's socio-economic landscape. These include the significant rise in savings and investment, the declining share of agriculture in GDP, replaced by industry, and the "market-seeking" flows of foreign direct and portfolio investment into the country.

¶14. (SBU) Savings have risen over the past decade to hit roughly 33

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percent of GDP, a combination of more corporate saving and less government dissaving (debt financing). While corporate savings may ebb a bit in the next decade, household savings are also beginning to rise and to become more fluid, moving from government subsidized post office savings deposits to commercial banks and mutual funds. Investment has also grown significantly in recent years, now at 35 percent of GDP - again, mainly a function of corporate expansion plans, but the government's infrastructure goals are boosting public investment levels as well. The savings-investment gap is clearly financed through imports and a trade deficit, but other inflows, including the FDI and portfolio investment noted above, have kept the balance of payments in surplus for three years with no end in sight, and foreign exchange reserves continue to rise, already surpassing USD250 billion, one of the largest in the world.

¶15. (SBU) The agricultural sector is critical to many households' incomes, since nearly 60 percent of India's workers are involved in agriculture. But in terms of GDP, agriculture accounts for less each year, last year contributing just 18 percent to national economic growth. On a macro scale, this decline lessens the volatility of growth that India's mainly monsoon-dependent agricultural sector brought, further making sustained GDP growth in the 9 percent range a likely scenario. Politically, however, the government struggles with proposed reforms that would have a broad effect on the 650 million people who are dependent on this underperforming sector. In India, the rural poor vote much more than the urban masses, so any dislocation in the agricultural sector has the potential to have wide-ranging political consequences.

¶16. (SBU) At the same time, India's manufacturing sector is finally showing signs of expansion and global attention. Stuck at roughly 14 percent of GDP for nearly two decades - a stark contrast to many Asian economies' growth trends - manufacturing grew to 17 percent of GDP last year, and with double digit growth continuing, appears likely to continue its increasing contribution to GDP.

JUST TWO INDIAS?

¶17. (SBU) India clearly has stark differences in rural/urban ratios in social and economic indicators, and at just 30 percent urbanization, the largest rural population in the world. Since much

of the visible economic boom this past decade has been in knowledge-intensive industries, mainly in urban areas, there is a widely held perception of two widely different and diverging Indias in urban and rural India. However, recent studies suggest that surprising developments are quietly underway outside India's cities.

One of the most important is that agriculture accounts for only half of India's rural economy; no longer is rural synonymous with agricultural. Also critical for understanding India's transformation is that rural incomes have been growing faster than urban incomes in recent years.

¶18. (SBU) Changes are underway in India's villages and small towns, but definitions and methodologies of measuring these changes are lagging. The non-agricultural rural economy that is seeing incomes rise includes the increasing use of casual or contract labor, outside factories, for apparel assembly; the rise in national markets for traditional handicrafts; the rise in tourism, especially domestic; emerging agro-processing industries; sale of land for industrial use; and creation of linkages for goods and services between major metros' demand and rural areas' supply. These dynamics are likely to become clearer in the next few years, as domestic companies, especially in retail, have begun to turn their marketing focus to India's rural sector, as urban markets become saturated. This "bottom of the pyramid" approach is the best indicator of how employment, income, and consumption tastes are changing outside of India's metros.

¶19. (SBU) However, poverty remains a considerable and sober challenge in India, with official (consumption-based) estimates placing about 26 percent of the population below the poverty line,

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which many consider an underestimation. However, in considering India's growth story and its need for inclusive growth, it is probably more useful to think of regional and state differences that create more than just the two India's of its cities and countryside.

BIG SHIFTS POSE CURRENT CHALLENGES

¶20. (SBU) As manufacturing and industrialization take off, businesses need land, as seen in the attempt to establish special economic zones across the country. Most States are developing their own policies for land acquisition or leasing, but are looking to the central government to articulate a resettlement policy for those who are displaced by transitioning land from agricultural to industrial use. This is a challenge given India's land size is only one-third China's, yet supports nearly as many people. For Indian landowners themselves, the transition is less problematic, as land prices have gone up considerably. However, millions of landless agricultural workers and those who leased their land from bigger farmers do not receive any compensation for the loss of their livelihood when land is purchased from the farmers. Before these changes, they were already among the most economically vulnerable.

¶21. (SBU) India's emerging organized retail sector, especially in produce, poses another challenge to the current socio-economic structure. Currently, only 3 percent of retail is organized. The procurement of agricultural products is under state government purview, and most have had laws that limited the sale of produce to state-sanctioned markets. Thus, direct sale to private buyers was prohibited. While the ostensible reason was to protect the farmer (through state supervision), the result has been a sanctioned monopoly that created middlemen - called commission agents - who often exploited the farmers' lack of selling options. The result is that Indian farmers typically get 35 percent of the final retail price of their goods, while in countries with more organized retail, farmers get 65 percent of that final price.

¶22. (SBU) Organized retail would benefit farmers and consumers, but make uncertain the fate of small street vendors and shopkeepers, who number as many as 40 million. These groups have joined together in several politically active associations to protest - and slow down or stop - the development of organized retail. While Wal-Mart figures into the rhetoric because of its backend supply joint

venture with Bharti Enterprises, much of the focus is on several large Indian companies, including Reliance. The benefits to farmers, from higher sale prices, extension services that retail companies have offered, and improved infrastructure and supply chains, would be revolutionary.

BILATERAL TRADE GROWING

¶23. (SBU) India-U.S. two-way trade touched USD32 billion in 2006 and, at present growth rates of over 20 percent, is expected to reach USD50 billion in 2009. Despite this strong growth in the trade relationship, a number of impediments persist and could impact future trade in both directions. U.S. exporters continue to encounter tariff and non-tariff barriers, despite Indian economic reforms and autonomous (non-WTO) reductions in duties applied to industrial goods. On the other side of the ledger, safety of Indian imports to the U.S. will be an important area for bilateral work, and is addressed in more detail in the third scenesetter cable.

¶24. (SBU) Both countries have sought to advance our bilateral trade dialogue through the U.S.-India Trade Policy Forum, which is chaired by USTR and the Commerce Ministry and meets semiannually. The five focus groups that comprise the Forum- agriculture, intellectual property, investment, services, and tariff and non-tariff barriers- interact regularly, often through videoconferences.

¶25. (SBU) Included among the bilateral Trade Policy Forum issues

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are a number of food and feed market access concerns related to food safety. For example, the USG has been pressing the Indian government to allow in U.S. poultry, pet food, cheese and wheat for some time now. But the Indian government has not only refused to accept the safety of these products or recognize our regulatory systems and standards, they have thrown up additional requirements not based on science. In fact, the U.S. maintains a 5:1 trade deficit with India on food and agricultural products with Indian food/feed shipments to the U.S. of USD1.4 billion. Further, the Indian government has requested the U.S. allow in imports of Indian fruit such as grapes, pomegranates and mangoes. However, only mangoes have been permitted to enter the U.S. - using radiation treatment to mitigate pests - due to the GOI's inability to control and regulate insects, pesticide and antibiotic use, etc. One particularly thorny issue which may arise during the HHS visit is Indian shipments of shrimp to the U.S. which face problems with antibiotics and feed, but also are part of an ongoing anti-dumping case.

ECONOMIC POLICY-MAKING IN A COALITION

¶26. (SBU) After delivering several key reforms, including a national value-added tax, Open Skies Agreement with the U.S. (India's first), improved patent protection through legislation, and privatization of major airports, reform momentum has noticeably stalled in the UPA coalition. Several key legislative amendments to liberalize the banking, insurance and pension sectors are stuck in Parliament, mainly because of opposition by the Left parties. The Finance Minister has acknowledged this, ascribing it to the challenge of heading a coalition. The UPA is made up of eleven parties, with five more Communist and Socialist parties supporting it from the outside in order to help it secure a majority in the lower house of Parliament. Given the UPA's inherent instability, and the harsh ideological divides between the Left and reformers like the Prime Minister and his economic team, the Ministry of Finance (MoF) has publicly described a newer approach to "opportunistic reform" - exploiting new economic developments or pressures that permit non-Parliamentary reforms to be enacted.

¶27. (SBU) Reforms become more difficult in the context of early election speculation. It is received wisdom that the BJP's surprise loss in 2004 was because economic growth had not reached the rural sectors. Thus, the UPA seeks to ensure that the "aam aadmi" (common man) feels that he is gaining - and perhaps as importantly - not losing from reforms. Many reforms which carry early transition

costs, such as market-based fees for electricity and water use, become more politically difficult in campaign season. Other issues have become mired in "anti-poor" rhetoric that the ruling party is unwilling to contest now; for example, that commodity futures trading hurts farmers, that lower tariffs in agriculture hurt farmers, that retail hurts farmers and small shopkeepers. Clear arguments exist to dispel these tropes, but the coalition shows no sign of taking them on.

TRAFFICKING IN PERSONS

¶28. (SBU) The Department of State is required by law to submit a report each year to the U.S. Congress on foreign governments' efforts to eliminate severe forms of trafficking in persons. The report is intended to raise global awareness, highlight efforts of the international community, and encourage foreign governments to take effective actions to counter all forms of trafficking in persons. Countries meeting minimum standards under U.S. law are placed in Tier 1. Those assessed as not fully complying with minimum standards but which are making significant efforts to do so are classified as Tier 2. Countries assessed as neither complying with the minimum standards nor making significant efforts to meet them are classified as Tier 3.

¶29. (SBU) To quote the 2007 Trafficking in Persons (TIP) Report:

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"India is placed on the Tier 2 Watch List for a fourth consecutive year for its failure to show increasing efforts to tackle India's large and multidimensional problem. Overall, the lack of any significant federal government action to address bonded labor, the reported complicity of law enforcement officials in trafficking and related criminal activity, and the critical need for an effective national-level law enforcement authority impede India's ability to effectively combat its trafficking in persons problem."

¶30. (SBU) In June 2007, the Secretary of State determined that India would undergo a Special Assessment at the end of six months to decide whether India should stay on Tier 2 or fall to Tier 3. That Special Assessment period ends this month. There is not broad agreement within the Department of State on the level of progress shown by the Government of India, and it is not certain at this point what the Secretary will decide.

¶31. (SBU) The Department of State, through the Office to Monitor and Combat Trafficking in Persons (G/TIP), also provides funding for programs implemented by non-governmental and multilateral organizations. India has traditionally been a large beneficiary of such funding, including USD 1 million in the current fiscal year, but the outlook for the future is less certain. We are currently in the process of soliciting proposals for funding in 2008.

¶32. (SBU) During your visit to Hyderabad, you will meet leadership of five NGOs that work on prevention of TIP. The NGOs are STHREE, Prajwala, Ankuram, International Organization for Migration, M.V. Foundation, and HELP, and they are actively involved in TIP, including collaboration with USG.

¶33. (SBU) Once again, we look forward to welcoming you to India and to working with your staff to ensure a successful and productive visit.

WHITE